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SIPDIS

STATE FOR EUR/FO

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [IC](#)

SUBJECT: ICELANDIC ECONOMIC CRISIS: THIRD BANK GOES DOWN AS MASS FIRINGS START

REF: Reykjavik 223

Classified By: DCM Neil Klopfenstein for reasons 1.4 (b) and (d).

1.(C) Summary: The Icelandic economic crisis worsened as the last (and largest) of the big three banks, Kaupthing, was taken over by the Icelandic government; the Icelandic stock exchange was shut down until Monday; one-third of Landsbanki employees were fired; and two new entities were created to take over domestic operations of the former Landsbanki and Glitnir banks. The possibility of a Russian loan continues to generate GOI assertions that finances and foreign policy can be kept separate. The Prime Minister stated that the Icelandic government had not asked for a loan from the IMF, but discussions continue in Reykjavik. The Minister of Finance travels to Washington today, and his meeting at the U.S. Treasury Friday will be important in focusing the Icelanders on a viable way through this disaster. End Summary.

¶2. (SBU) The Chairman of Kaupthing Bank's Board, Sigurdur Einarsson, blamed British authorities for Iceland's Financial Supervisory Authority (FME) take over of Kaupthing in the early hours of October 19. The FME, which used the new emergency legislation authority, asserted that the takeover will insure continued commercial bank operations in Iceland and that Kaupthing's domestic deposits are fully guaranteed. Einarsson said the British authorities' October 8 seizure of Kaupthing Edge deposit accounts valued at 3 billion pounds, and the forced suspension of payments of Kaupthing's subsidiary in London, had been interpreted as a technical default on loans by Kaupthing's creditors. The British apparently invoked anti-terrorism laws created in the aftermath of 9/11 to freeze Icelandic assets in the UK. The Icelandic media is reporting that UK Chancellor Darling took this action after a miscommunication with Minister of Finance Arni Mathiesen over whether Landsbanki's IceSave accounts in the UK would be guaranteed by the Icelandic authorities. The association with terrorism has infuriated Icelandic authorities.

¶3. (SBU) Iceland closed its stock exchange this morning. An official statement from the OMS Stock Exchange said, "Due to unusual market conditions NASDAQ OMX Iceland has decided to suspend temporarily trading on its equity markets. The equity markets will re-open for trading on Monday, October 13."

¶4. (SBU) Despite assurances yesterday by the Minister of Commerce and the Minister of Finance that bank employees would not lose their jobs, Landsbanki fired one-third of its employees today. This will likely impact the unemployment rate by close to half a percentage point. The FME created two new bank entities "New Landsbanki Island, hf" and "New Glitnir Bank, hf" to conduct the domestic operations of their predecessor banks.

¶5. (C) The Russian loan is still part of Iceland's plan. Prime Minister Haarde said last night that the loans from the IMF and Russia "are not mutually exclusive" though the government had not asked IMF for a standby loan or an economic program. He repeated that statement in a press conference today. Questions about the influence the loan might give Russia continue to be met by assertions that finances and foreign policy can and will be kept separate.

¶6. (C) Minister of Finance Arni Mathiesen travels to Washington tonight for World Bank meetings. Post persuaded the Minister to agree to meet with senior Treasury officials while in the U.S. Mathiesen will meet with Treasury A/S Clay Lowery on October 10. We would hope this meeting will help the Icelanders think their way through the present crisis and move from a stopgap reactive approach to a durable comprehensive plan. It should also make clear to them how the U.S. can and cannot be of assistance and point them in the direction of other options.

van Voorst